

and its efforts at cultivating a strong relationship with the West.

Mr. Speaker, Ukraine declared its independence from the Soviet Union in 1991, and since then has embarked on a long march towards democracy. Along the way, it has gradually oriented itself towards the West and embraced Western institutions. Ukraine was the first post-Soviet state to join NATO's Partnership for Peace program. It has since become party to a NATO-Ukraine Commission, which meets at various times throughout the year, and is a member of the Council of Europe. Ukraine has stated that its strategic goal is integration into Western political and security structures, including, potentially, NATO itself.

Mr. Speaker, I would also like to express support for Ukraine's Prime Minister, Viktor Yushchenko, and his wife Katherine, who is American. Prime Minister Yushchenko has worked tirelessly to end corruption and carry out democratic reforms in Ukraine, recently under turmoil because of the undemocratic actions of others in power. His continued leadership will be critical to the success of this progressing nation.

#### INTRODUCTION OF LEGISLATION ON REVISIONS TO THE PIC PROGRAM

**HON. DONNA M. CHRISTENSEN**

OF VIRGIN ISLANDS

IN THE HOUSE OF REPRESENTATIVES

*Tuesday, February 13, 2001*

Mrs. CHRISTENSEN. Mr. Speaker, today I introduce a bill which would make a series of technical and/or noncontroversial adjustments to the Production Incentive Certificate ("PIC") program for watch and jewelry produced in the U.S. insular possessions. In the near term, this legislation would improve the operation of the PIC program for both watch and jewelry manufacturers in the U.S. Virgin Islands—producers that provide a critical source of employment for the Territory. Over the longer term, this legislation would protect the PIC program and related duty incentives from the effects of any future reduction or elimination of watch tariffs.

The watch industry is the largest light manufacturing industry in the USVI and remains one of the most important direct and indirect sources of private sector employment in the Territory. The insular watch production industry is also highly import-sensitive and faces continued threats from multinational watch producers, who have continued to move their watch production to lower wage countries.

Congress and successive Administrations have recognized the importance of the watch industry to the USVI—and the import sensitivity of watches—through a series of significant enactments and decisions. The General Note 3(a) program, which Congress has incorporated in the Harmonized Tariff Schedule, grants duty-free treatment for qualifying insular possession watches and thereby provides a relative duty advantage vis-à-vis foreign watch producers. Through the PIC program, insular possession watch producers can obtain duty refunds based on creditable wages paid for watch production in the insular possessions. Additionally, in recognition of the relative advantage that duty-free treatment of watches provides to insular possession watch pro-

ducers, Congress and successive Administrations have resisted efforts to eliminate watch duties on a worldwide basis.

In 1999, Congress extended the General Note 3(a) program and PIC program benefits to jewelry produced in the insular possessions. In doing so, Congress sought to promote vital employment in the insular possessions by extending existing watch industry incentives to jewelry production—an industry which utilizes many of the same skills and facilities as watch production. Since enactment of this important change, four mainland jewelry manufacturing companies have established operations in the USVI and are participating in the PIC program.

Watch and jewelry producers in the Virgin Islands have consulted with the American Watch Association and U.S. watch firms that import substantial quantities of foreign made watches regarding proposals to preserve and protect benefits for insular possession watches and jewelry, while also mitigating the impact of any future reduction of duties on imported watches. These discussions have resulted in the parties' unified support for the legislation that I am introducing today.

The various technical adjustments set forth in this legislation would enhance the ability of insular watch and jewelry producers to utilize the PIC program while, at the same time, retaining overall PIC program unit and dollar value limits. Additionally, the legislation would establish a standby mechanism to mitigate the impact of any possible future reduction or elimination of watch duties on a worldwide basis through trade negotiations and congressional action. This mechanism—which has broad support among the insular and domestic watch manufacturing and distribution sectors—would ensure that any future reduction in watch duties does not disturb the relative value of current duty incentives and PIC program benefits for the insular watch industry. Importantly, this standby mechanism would have no effect on current watch duties or PIC program limits.

Under the PIC program, producers of watches and jewelry in the U.S. insular possessions are issued certificates by the Department of Commerce for specified percentages of the producer's verified creditable wages for production in the insular possessions. Based on these certificates, the producers are entitled to apply to the U.S. Customs Service for refunds on duties paid on watches. Certain technical provisions of the PIC program, however, impose unnecessary burdens on producers. These include unclear definitions, unduly complex PIC refund provisions and special issues relating to the extension of PIC benefits to jewelry. The legislation that I am introducing today includes technical adjustments to the PIC program to eliminate these burdens, while retaining overall PIC program limits on units and benefits.

Currently, a producer receives a single PIC certificate of entitlement for each calendar year, which is issued by March 1 of the following year. This certificate serves as the basis for the producer's application for duty refunds to U.S. Customs, a process which can take as long as six months. As a result, there can be delays of as long as 18 months between the time a producer incurs a creditable wage payment and the time the producer receives the related duty refund. The proposed legislation would reduce these unnecessary delays by providing for the issuance of PIC certificates of entitlement on a quarterly basis.

Currently, producers must assemble often voluminous import entry information and apply to U.S. Customs for wage-based refunds. If a producer has not paid sufficient import duties, the producer must sell the PIC certificate to another firm, which then applies for the duty refund. In either event, the PIC program assures that an insular producer is compensated for a specified percentage of its verified production wages, regardless of whether it has paid the corresponding amount of import duties. The bill would simplify this refund process by providing producers with the option of applying directly to the Treasury Department for the full amount of their verified PIC program certificates.

For watches, the PIC program establishes a 750,000 unit limitation on the number of watches used to calculate an individual producer's PIC benefits. When the PIC program was extended by Congress to jewelry, this upper limit was also extended to each individual jewelry producer's qualifying jewelry production. While this limit may be appropriate for watches, which are technically sophisticated and relatively expensive, I am informed that it is likely to unduly limit jewelry production in the insular possessions, which relies on large quantities of relatively lower-priced units. My proposed legislation would address this issue by eliminating the 750,000 unit per producer limit for jewelry, while retaining the overall unit and dollar value limits for the PIC program as a whole.

When Congress extended the PIC program to jewelry in 1999, it sought to encourage the phased establishment of new jewelry production in the insular possessions through a transition rule. Under this rule, jewelry items which are assembled (but not substantially transformed) in the insular possessions before August 9, 2001 would be eligible for PIC program and duty-free benefits. Although this new provision has helped attract new jewelry production to the USVI, I am informed that some potential producers are facing administrative, technical and business delays which may severely erode the benefits of the transition rule. The bill would address this issue by extending the transition rule for jewelry for an additional 18 months.

The bill would help to facilitate long term planning by existing insular producers and attract new producers to the insular possessions by extending the authorized term of the PIC program until 2015. The bill would also clarify current law by stating explicitly that verified wages include the amount of any fringe benefits.

For many years, multinational companies that import substantial quantities of foreign-made watches into the United States have sought to reduce or eliminate U.S. watch duties, either through multiple petitions for duty-free treatment for watches from certain GSP-eligible countries or through worldwide elimination of watch duties in trade negotiations. Insular possession watch producers have repeatedly opposed these efforts on the ground that the elimination of duties on foreign watches would eliminate the relative benefit that insular possession producers receive through duty-free treatment under the General Note 3 (a) program and, in turn, lead to the eventual demise of the insular watch industry. Successive Congresses and Administrations have agreed with these arguments and refused to erode the benefits which insular possession